

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 EB-04 COME-00 TRSE-00 PM-03 NSC-05

SP-02 SS-15 RSC-01 CIAE-00 INR-05 NSAE-00 PRS-01

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 8798

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E. O. 11652: N/A

TAGS: EINV, AR, US

SUBJECT: SITUATION OF U.S. AUTOMOTIVE MANUFACTURERS IN ARGENTINA

REF: BA 7592 AND BA 7932

1. AS DEPARTMENT IS AWARE, U.S. AND OTHER FOREIGN AUTOMOTIVE MANUFACTURERS IN ARGENTINA HAVE BEEN SUBJECT TO A VERY BAD PROFIT SQUEEZE OWING TO GOVERNMENT WAGES/PRICES POLICY OVER PAST YEAR AND A HALF. THIS SITUATION HAS RECENTLY REACHED A POINT WHERE BOTH GENERAL MOTORS AND CHRYSLER HAVE INFORMED US THAT IMMEDIATE RELIEF WAS REQUIRED IF THEY WERE TO CONTINUE TO OPERATE IN ARGENTINA.

2. THE AMBASSADOR AND EMBASSY OFFICERS HAVE ON SEVERAL OCCASIONS DISCUSSED THIS MATTER WITH GOA OFFICIALS. MOST RECENTLY AMBASSADOR HILL RAISED QUESTION OF SITUATION OF AMERICAN COMPANIES, INCLUDING SPECIFICALLY AUTOMOTIVE COMPANIES, DURING CALL ON NEW ECONOMY MINISTER GOMEZ MORALES ON NOVEMBER 7. GOMEZ MORALES PROMISED THAT THERE WOULD BE RELIEF "VERY SOON".

3. IN LATE AFTERNOON OF NOVEMBER 7, SECRETARY OF COMMERCE, JOSE ALOATTI, ANNOUNCED THAT AUTOMOTIVE

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COMPANIES WOULD BE ABLE TO ADJUST THEIR PRICES

ON THE BASIS OF ACTUAL COSTS AS OF OCTOBER 31.
ACCORDING TO PRELIMINARY INFORMATION, THEY WILL
BE AUTHORIZED TO ADJUST PRICES AT 10 DAY INTERVALS
FROM NOW ON. ALL PRICE ADJUSTMENTS WILL BE SUBJECT
TO POST-REVIEW BY GOA.

4. FIRST REACTIONS FROM U.S. AUTOMOTIVE COMPANIES HERE
ARE THAT THIS IS A MAJOR CHANGE IN GOA POLICY, AND
IS MOST ENCOURAGING. HOWEVER, THEY ARE SOMEWHAT
CONCERNED AT THE FACT THAT THE SECRETARY'S ANNOUNCEMENT
SPECIFICALLY STATED THAT COSTS RELATING TO THE RECENT
WAGE INCREASE (AMOUNTING TO BETWEEN 15 AND 20 PERCENT)
AND THE NEW LAW OF LABOR CONTRACTS WILL NOT RPT NOT
BE PERMITTED TO BE INCLUDED AS COSTS FOR PURPOSE OF
ADJUSTING PRICES. NOR WILL THE COMPANIES BE ALLOWED
TO SET PRICES AT LEVEL WHICH WOULD MAKE UP FOR
TREMENDOUS LOSSES INCURRED DURING PAST YEAR AND A HALF.
DESPITE THESE AND OTHER SHORTCOMINGS OF NEW POLICY,
IT IS A VAST IMPROVEMENT OVER THE POLICY OF THE PREVIOUS
ECONOMIC TEAM, AND OFFERS HOPE THAT U.S. AND OTHER
AUTOMOTIVE COMPANIES MAY EVENTUALLY AGAIN DO BUSINESS
PROFITABLY IN ARGENTINA.

5. CHIEF EXECUTIVE OFFICER OF CHRYSLER OF ARGENTINA SAID
HE FELT AMBASSADOR HILL'S REPRESENTATIONS TO
GOVERNMENT OFFICIALS, INCLUDING MINISTER OF ECONOMY,
WERE IMPORTANT FACTOR IN BRINGING ABOUT THIS POLICY
CHANGE.
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